

California Housing Finance Agency
Multifamily Program
Loan Processing Requirements

Introduction

The California Housing Finance Agency ("CalHFA" or the "Agency") was created by the Legislature in 1975 for the purpose of meeting the housing needs of persons and families of low and moderate income. The Agency provides mortgage capital through the sale of tax-exempt and taxable notes and bonds which are **not** obligations of the State of California and are **not** repaid with tax dollars. CalHFA is required by law to be self-supporting and all Agency operating expenses are paid from program revenue.

CalHFA's multifamily rental housing programs provide permanent financing for the acquisition, rehabilitation, or new construction of rental housing that includes affordable rents for low and moderate income families and individuals. This manual provides information regarding CalHFA's loan processing requirements. Specific loan products with current terms and conditions are separately available on CalHFA Term Sheets.

Loan Process

The major stages of CalHFA's loan process are:

- Pre-Application
- Application
- 2 Concept Meetings
- Initial Commitment
- Final Commitment
- Construction/Rehabilitation
- Permanent Loan Close

Pre-Application

Prior to submitting an application, project sponsors and developers are encouraged to discuss their projects with CalHFA staff, and to familiarize themselves with CalHFA processing requirements contained in this manual. An applicant should submit any and all available information regarding the proposed project. A pre-Application review determines whether a proposed project meets CalHFA guidelines and appears economically feasible.

Application

The loan application package gathers the information necessary to underwrite the loan and determine if the development complies with CalHFA's program requirements.

The Affordable Housing Funding Application (Attachment I). The CalHFA application and attachments includes Technical, Environmental, Equal Opportunity and Legal submissions and is referred to as the CalHFA-1.

The loan process starts with the submission of:

- Three copies of a complete CalHFA-1,
- The appropriate Application Fee,

to CalHFA's Loan Quality Control Unit ("LQC") in Sacramento. The loan submission will be assigned by the Chief of Multifamily Lending, distributed to appropriate staff, reviewed for completeness, comments provided to the Mortgage Officer and a Concept Meeting scheduled.

Concept Meeting

The purpose of the Concept Meeting is to bring the key processing staff of the Agency and the sponsor together to review the scope of the project, identify and address specific issues, determine the feasibility of the project, and establish the timeline for processing the loan.

Two Concept Meetings are conducted. The first Concept Meeting reviews the scope of the project and the processing requirements. For an acquisition/rehabilitation project the scope of work includes a Physical Needs Assessment ("PNA"). The second Concept Meeting is to review the PNA, identify and address specific issues, determine the feasibility of the project, and establish the time line for processing the loan.

It is recommended that the Borrower include the following representatives at the Concept Meeting:

- Borrower's Principals
- Architect
- General Contractor
- Consultant
- Property Management Agent

At the Concept Meeting, the borrower is expected to discuss the proposed project to include:

- Market Conditions
- Sources and Uses
- Subordinate Financing
- Development Team
- Plans & Specifications
- Environmental & Other Issues

CalHFA staff will review the requirements for loan processing, Equal Opportunity, Architectural Review and Asset Management and discuss any issues that were identified in the application package.

Included in the Agency's loan processing requirements are a number of studies commissioned by CalHFA, for its benefit, at the Borrower's expense. The Borrower must provide advance payment to CalHFA to cover any cost of the required studies, which may include:

- Market Study
- Appraisal completed by a state licensed multi-family appraiser.
- Phase 1 Environmental Toxic Report to identify environmental concerns.
- Seismic Review that concludes a newly constructed building would sustain 8% or less damage and an acquisition/rehabilitation building would sustain 12% or less damage in a substantial earthquake.
- Preliminary design drawings and specifications (3 sets). Plans and specifications should include all off-site improvements required in connection with the proposed development.
- Site Survey (Alta Survey) must show all site details.

- Topographical map is required if the slope exceeds five percent (5%).

In addition to the foregoing studies, acquisition/rehabilitation loans require the following submittals:

- Physical Needs Assessment which will identify and evaluate the current condition of a project to include the structure, mechanical systems, condition of appliances, individual units and rehabilitation costs. This assessment also estimates the remaining useful life of systems and appliances and is incorporated in the Agency's determination of replacement reserves.
- Termite and Dry Rot Report
- Plans and Specifications provided by borrower following agreement of the final scope of work between the Agency and the borrower to include a detailed cost breakdown based upon a signed construction contract and/or subcontractor bids.

Following the Concept Meeting, the Mortgage Officer prepares a summary of the outstanding issues to include what actions are necessary to resolve the issue, the responsible party, and the time frame for resolution. The Concept Meeting summary will be distributed to all appropriate parties.

Initial Commitment

An Initial Commitment request is prepared by Multifamily staff and presented to CalHFA's senior management for review and approval. If the proposed loan request exceeds \$10 million, or the project proposal involves unusual characteristics, senior management may request it be reviewed for Initial Commitment approval by the CalHFA Board of Directors (the "Board"). In the event the Initial Commitment request is not approved, or approved with conditions, the applicant has the option to satisfactorily address the conditions or withdraw the application. An approved Initial Commitment is prepared by Legal, reviewed by Multifamily, approved by the Executive Director (or designee) and transmitted to the borrower.

Final Commitment

When the required underwriting information is complete including approval of the Architectural Loan Submission Package (Supplement 4, Attachment D), a Final Commitment request is prepared by Multifamily staff to include a revised cashflow (if necessary) and all supporting documentation which outlines the costs of the project, the actual terms of CalHFA's permanent financing, and related financing

fees. The Final Commitment package is presented to senior management for review and approval. Once approved, the package is submitted for consideration to the Board.

The Board normally meets once every two months and the applicant is encouraged to attend the Board meeting when their project loan request is being considered. Payment of any Financing Fees is required one week prior to the Board Meeting. The Board may approve a loan request, deny a loan request or impose conditions of approval.

Approximately one month following Board approval or upon satisfaction of all conditions required by the Board, a Final Commitment is sent to the borrower for signature. Attached to the Final Commitment are a sample note, deed of trust and regulatory agreement.

Construction/Rehabilitation

Construction/Rehabilitation WILL NOT BE AUTHORIZED by CalHFA until the Agency has received and approved the Construction Contract Documents (Supplement 4, Attachment E) in the case of new construction projects, or the Plans and Specifications in the case of acquisition/rehabilitation projects.

The construction phase of the project is monitored by CalHFA staff or retained inspectors. The inspectors evaluate the work according to the plans and specifications or the scope of work previously approved by CalHFA. Periodic inspections are performed throughout construction phase. Change orders generally require CalHFA approval and project costs are tracked in accordance with the construction budget. At completion of the project, a final review of the as-built plans is conducted to ensure compliance with the approved plans.

Permanent Loan Close

If the loan is funded through bond financing an Origination Guarantee Fee is required upon return of the executed Final Commitment Letter. The Origination Guarantee Fee is a deposit guarantee on the bonds and serves to offset Agency costs in the event the loan does not close. The Origination Guarantee Fee is refundable at permanent loan close.

CalHFA requires the following documentation before the close of escrow as proof that the project is complete:

- Certificate of Occupancy
- ALTA Survey signed by the Architect
- Audited Cost Certifications

- CalHFA review and approval of the final "as-built" drawings.

Loan Quality Control meets with the Borrower when the project is almost complete, but no later than 120 days prior to permanent loan closing. A Permanent Loan Closing checklist is given to the Borrower. Three copies of the completed checklist are submitted to LQC. CalHFA's Legal Division then drafts final loan documents and escrow instructions which are forwarded to the applicant, the applicant's attorney and the title company for review.

CalHFA generally requires payment of the following fees and impounds prior to or in escrow:

- One year prepaid Hazard, Liability and Earthquake insurance, or adequate impounds collected in escrow to cover the first year's premiums.
- Impounds for property taxes, including estimated supplemental taxes; insurance, both liability and earthquake; special assessments; and interest through the end of the month in which the loan closes.
- UCC search and UCC filing fees.
- Impounds for the reserve replacement account
- Rent Up, Marketing and Operating Expense reserves.

Prior to the loan closing, after all documentation has been reviewed and approved by CalHFA and the applicant, an internal pre-closing meeting occurs to review the closing package. At this meeting any changes to the final commitment are discussed. Property Management, Legal, Loan Quality Control, Accounting, and Finance confirm that they have all the necessary information for the loan to close. Conditions may be established which must be met before the loan can close. After the meeting, and once all conditions have been met, the executed loan documents and escrow instructions are submitted to CalHFA's Executive Director for signature and then forwarded to the title company. Wire transfer instructions are provided to CalHFA's Accounting Division and typically five business days are required before the funds are available to be wired to the escrow company. Once the escrow company can comply with the terms of the Agency's escrow instructions, the necessary funds are wired to the escrow company and the escrow may close.